

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

**Financial Report
with Supplemental Information
December 31, 2007**

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

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Independent Auditor's Report

To the Board of Trustees
City of Warren Police and Fire Retirement
Health Benefits Plan and Trust

We have audited the accompanying basic financial statements of the City of Warren Police and Fire Retirement Health Benefits Plan and Trust (a component unit of the City of Warren, Michigan) as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the City of Warren Police and Fire Retirement Health Benefits Plan and Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Warren Police and Fire Retirement Health Benefits Plan and Trust as of December 31, 2007 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 13, 2008

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below shows key financial information in a condensed format for the current year:

	December 31	
	2007	2006
Total assets	\$ 21,574,228	\$ 20,036,408
Total liabilities	4,919,411	3,757,702
Assets held in trust for retiree health benefits	<u>\$ 16,654,817</u>	<u>\$ 16,278,706</u>
Net investment gain	\$ 1,156,309	\$ 2,001,471
Employer contributions	\$ 7,579,855	\$ 6,009,872
Postemployment healthcare expenditures and medicare reimbursements	\$ 8,353,964	\$ 6,468,425
Expenditures paid in excess of contributions	\$ 774,109	\$ 458,553
Ratio of benefits paid to contributions	1.10	1.08
General and administrative expenses	\$ 6,089	\$ 7,387
Net increase in net assets held in trust	\$ 376,111	\$ 1,535,531

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The City of Warren Police and Fire Retirement Health Benefits Plan and Trust (the "Plan and Trust") exist to pay postemployment health care and related costs. Expenses currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Investment Results

Funds are kept liquid in order to meet postemployment healthcare expenditures. Short-term money was deposited into a money market instrument yielding 4.94 percent. Seven certificates of deposit were purchased yielding 4.70 percent and 5.14 percent.

The board of trustees of the Plan and Trust hired an index manager for an asset allocation model of 60 percent equity index funds and 40 percent fixed income index funds. The managed index funds returned 5.80 percent for 2007.

Contacting the Plan and Trust's Management

This financial report is intended to provide our citizens, taxpayers, and investors with a general overview of the Plan and Trust's finances and to show the Plan and Trust's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Plan and Trust's office at One City Square, Suite 415, Warren, Michigan 48093-5287, or (586) 574-4568.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Statement of Plan Net Assets December 31, 2007

Assets

Accrued interest and dividends receivable	\$ 113,604
Investments - Noncategorized:	
Short-term cash management funds	6,404
Mutual funds - Equities	13,278,768
Mutual funds - Fixed income	2,455,635
Certificates of deposit	<u>5,719,817</u>
Total investments	<u>21,460,624</u>
Total assets	<u>21,574,228</u>

Liabilities

Due to City of Warren - General Fund	4,915,158
Accounts payable	<u>4,253</u>
Total liabilities	<u>4,919,411</u>

Net Assets Held in Trust for Retiree Health Benefits	<u><u>\$ 16,654,817</u></u>
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City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Statement of Changes in Plan Net Assets Year Ended December 31, 2007

Additions

Interest and dividends	\$ 943,669
Net appreciation in fair values of investments	229,335
Less interest expenses	<u>(16,695)</u>
Net investment income	1,156,309
Contributions - Employer contributions	<u>7,579,855</u>
Total additions	8,736,164

Deductions

Retirees' health care	7,995,859
Medicare reimbursements	358,105
Administrative expenses	<u>6,089</u>
Total deductions	<u>8,360,053</u>

Net Increase

376,111

Net Assets Held in Trust for Retiree Health Benefits

Beginning of year	<u>16,278,706</u>
End of year	<u><u>\$ 16,654,817</u></u>

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Notes to Financial Statements December 31, 2007

Note 1 - Significant Accounting Policies

The City of Warren Police and Fire Retirement Health Benefits Plan and Trust (the "Plan and Trust"), an irrevocable trust, is the administrator of a single-employer public employees' health and benefits plan that covers substantially all of the police and fire retirees of the City of Warren, Michigan. The financial statements of the Plan and Trust are also included in the combined financial statements of the City of Warren (the "City") as a fiduciary fund. The Plan and Trust was set up as a VEBA trust fund.

The board of trustees is made up of five individuals. Two trustees are appointed by the mayor. The police employees and the fire employees each have their own elected trustees. The city treasurer is also required by city ordinance to be a member of the board.

Basis of Accounting - The Plan and Trust's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenue in the period in which they are earned. Insurance and other costs are recognized when due and payable in accordance with the terms of the Plan and Trust.

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price.

Note 2 - Plan Description

The Plan and Trust, a single employer plan, provides health benefits to plan members and their beneficiaries. The obligation to contribute to and maintain the Plan and Trust for these employees was established by city ordinance and negotiation with the police and fire collective bargaining units. At December 31, 2007, membership consisted of 421 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 370 current active employees.

Administrative costs of the plan are financed through investment earnings.

Note 3 - Contributions

The Plan is required by its ordinance to annually fund employer contributions based on the actuarial determined rate. The Plan's funding policy provides for monthly employer contributions at the actuarially determined rate of 24.24 percent for the months January 2007 through June 2007 and 24.08 percent for the months of July 2007 through December 2007 that, expressed as percentages of monthly covered payroll, is intended to accumulate sufficient assets to pay health benefits when due.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Notes to Financial Statements December 31, 2007

Note 4 - Postemployment Benefits

Funding Progress - For the year ended December 31, 2007, the Plan has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2006. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. Based on that valuation, the Plan contributed \$7,579,855 in the year ended December 31, 2007 which represents 100 percent of the annual required contribution.

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of December 31, 2006:

Actuarial value of assets	\$ 16,278,706
Actuarial accrued liability	173,368,137
Unfunded AAL	157,089,431
Funded ratio	9.39%
Annual covered payroll	29,425,088
Ratio of UAAL to covered payroll	533.86%

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Notes to Financial Statements December 31, 2007

Note 4 - Postemployment Benefits (Continued)

In the December 31, 2006 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return compounded annually (net of administrative expenses), which consists of a real rate of return of 3.0 percent per year plus a long-term rate of inflation of 4.5 percent per year. It also included healthcare cost increases of 5 percent for the years included in the valuation. The actuarial value of assets is set to equal fair market value. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006 was 30 years.

Note 5 - Deposits and Investments

Investments - The Plan and Trust are authorized by Michigan Public Act 485 of 1996 to invest in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances, mutual funds, investment pools that are composed of authorized investment vehicles, certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Plan and Trust's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Plan and Trust's deposits may not be returned to them. The Plan and Trust do not have a deposit policy for custodial credit risk. At year end, the Plan and Trust had certificates of deposit of \$5,719,817, of which \$200,000 was covered by federal depository insurance. The Plan and Trust believe that due to the dollar amounts of cash deposits and the limits of FDIC Insurance, it is impractical to insure all deposits. As a result, the Plan and Trust evaluate each financial institution with which they deposit funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Notes to Financial Statements December 31, 2007

Note 5 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan and Trust have no investment policy that would further limit their investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment type - Rating</u>	<u>Fair Value</u>	<u>Rating Organization</u>
Index funds - BAA through AAA	\$ 2,455,635	Moody's

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan and Trust's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day or less maturity. At year end, the average maturity of the bond index funds, \$2,455,635, was 7.05 years.

Note 6 - Risk Management

The Plan and Trust's exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The Plan falls under the umbrella of coverage that the City of Warren maintains. The City is self-insured for non-HMO medical benefits afforded to employees and retirees. The program is liable for the first \$200,000 per person. The City has purchased an insurance policy to cover any costs over the \$200,000 limitation, not to exceed the limit of \$4,800,000 lifetime per person. At December 31, 2007, the plan recorded an estimated liability for claims incurred but not yet reported for self-insured medical benefits for retirees of approximately \$700,000, which is recorded as due to the City of Warren.

Required Supplemental Information

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (b-a)	Funded Ratio (Percentage) (a/b)	Valuation Payroll	Unfunded AAL as a Percentage of Valuation Payroll
12/31/03	\$ -	\$ 116,492,273	\$ 116,492,273	0.00%	\$ 29,400,497	396.23%
12/31/06	16,278,706	173,368,137	157,089,431	9.39	29,425,088	533.86

Required Supplemental Information Schedule of Employer Contributions

Years Ended December 31	Annual Required Contribution *	Amount Contributed	Percentage Contributed
2007	\$ 7,579,855	\$ 7,579,855	100.00

* GASB Statement No. 45 is not required to be adopted until the fiscal year ending December 31, 2008.

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

**Report to the Board of Trustees
December 31, 2007**

To the Board of Trustees
City of Warren Police and Fire
Retirement Systems and Health Benefits Plan

We have recently completed our audit of the basic financial statements of the City of Warren Police and Fire Retirement Systems and Health Benefits Plan (the "Plans") for the year ended December 31, 2007. In addition to our audit report, we are providing the following report on internal control and results of the audit which impact the Plans:

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We are grateful for the opportunity to be of service to the Plans. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

June 13, 2008

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

Report on Internal Control

June 13, 2008

To the Board of Trustees
City of Warren Police and Fire
Retirement Systems and Health Benefits Plan

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Plans' financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Warren Police and Fire Retirement Systems and Health Benefits Plan as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Plans' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control. Accordingly, we do not express an opinion on the effectiveness of the Plans' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be significant deficiency.

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

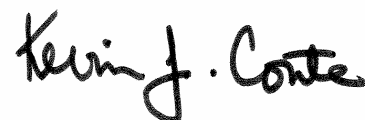
- In previous years, a liability has been recorded in the Health Benefits Plan for an estimate of claims incurred but not yet reported related to health insurance claims. In the current year, as this amount was an estimated liability, it was inadvertently left out of the trial balance at year end and an auditor adjustment was required to record the liability of \$708,436. The Plan was aware of the estimate and needed some further guidance on the proper accounting treatment related to the estimate. The treatment has been discussed with the accountant and will be booked on a regular basis going forward.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Kevin J. Conte". The signature is written in a cursive, flowing style.

Kevin J. Conte, Partner

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

Results of the Audit

June 13, 2008

To the Board of Trustees
City of Warren Police and Fire
Retirement Systems and Health Benefits Plan

We have audited the financial statements of the Plans for the year ended December 31, 2007 and have issued our report thereon dated June 13, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letters dated March 17, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of City of Warren Police and Fire Retirement Systems and Health Benefits Plan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 27, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Plans are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007.

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

We noted no transactions entered into by the Plans during the year for which there is a lack of authoritative guidance.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- In previous years, a liability has been recorded in the Health Benefits Plan for an estimate of claims incurred but not yet reported related to health insurance claims. In the current year, as this amount was an estimated liability, it was inadvertently left out of the trial balance at year end and an auditor adjustment was required to record the liability of \$708,436. The Plan was aware of the estimate and needed some further guidance on the proper accounting treatment related to the estimate. The treatment has been discussed with the accountant and will be booked on a regular basis going forward.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated June 13, 2008.

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

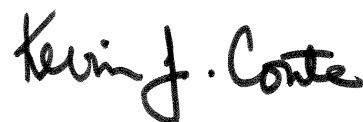
Other Audit Findings or Issues

In the normal course of our professional association with the Plans, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Plans' auditors.

This information is intended solely for the use of the board of trustees and management of the Plans and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Kevin J. Conte, Partner



Pamela L. Hill